

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7247

BILL NUMBER: SB 505

NOTE PREPARED: Jan 7, 2013

BILL AMENDED:

SUBJECT: Gasoline Tax.

FIRST AUTHOR: Sen. Skinner

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill indexes the gasoline tax rate for inflation with a minimum rate of \$0.18 per gallon. It provides that the gasoline tax revenue that is attributable to the rate above \$0.18 is to be distributed for highway, road, and street purposes via the Special Distribution Account as follows:

- (1) 40% to the Indiana Department of Transportation (INDOT);
- (2) 30% to each county, city, and town eligible to receive a distribution from the Local Road and Street Account (LRS) - Accelerated #1 Distribution;
- (3) 30% to each county, city, and town eligible to receive a distribution from the Motor Vehicle Highway Account (MVH) - Accelerated #2 Distribution.

Effective Date: Upon passage; July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR)* - This bill could increase the DOR's administrative costs. DOR would be required to determine the new rate of gasoline tax no later than May 1 of each year after 2013.

Auditor of State - This bill could also increase administrative costs of the Auditor of State, who would be required to allocate the additional gasoline tax revenue (over the \$0.18 / gallon base rate) and allocate the funds to the Special Distribution Account, which is a change in the typical gas tax allocation structure.

Explanation of State Revenues: *Summary:* The bill would increase the amount of gasoline tax collected each year by indexing (or adjusting for inflation) the rate to the Consumer Price Index (CPI). CPI data measures inflation as experienced by consumers in their day-to-day living expenses. For the years 2002 through 2011

(as of the date of this analysis, complete 2012 data is not available), the average year-over-year change in inflation was 2.47%. Based on this 10-year average, the future gasoline tax rate was estimated to be \$0.18445 for FY 2014 and \$0.189 for FY 2015. [Note that the bill does not use an average, but rather, DOR will utilize the actual year-over-year change in the CPI each year that the tax rate is recalculated.]

To determine the new gasoline tax rate, the “base” amount of \$0.18 per gallon of gasoline sold was increased by the average percentage change in the CPI (2.47%). The estimated increases in revenue for FY 2014 and FY 2015 (using the CPI data currently available) are shown below.

Estimate of Increase in Gasoline Tax Due to Indexing to CPI			
Fiscal Year	Gasoline Tax Rate	Estimated Revenue	Increase over Baseline*
2014	\$0.18445	\$547.9 M	\$13.2 M
2015	\$0.189	\$561.5 M	\$26.7 M
* Baseline refers to FY 2012 gasoline tax revenues, which were \$534.7 M			

As shown in the table, the indexed gasoline tax is expected to bring in an additional \$13.2 M in FY 2014 and \$26.7 M in FY 2015. The bill provides that all revenues earned by the first \$0.18 of gas tax continue to be allocated according to the current distribution. All additional revenues earned from the difference of the indexed tax rate and \$0.18 will be placed in the Special Distribution Account, which is allocated to INDOT, counties, cities, and towns for transportation-related purposes.

INDOT - INDOT is expected to receive an additional \$5.3 M in revenue in FY 2014 that is directly attributable to the CPI-indexed gasoline tax rate. In FY 2015, INDOT is expected to receive \$10.7 M more in revenue due to the indexed gasoline tax

Estimate of Increase of INDOT Revenue Attributable to Indexing Gas Tax to CPI			
Fiscal Year	Expected Revenue at Current Rate *	Expected Revenue with Indexed Rate	Estimated Increase due to Indexed Rate
2014	\$1,043.7 M	\$1,049.0 M	\$5.3 M
2015	\$1,043.7 M	\$1,054.4 M	\$10.7 M
* The revenue estimate does not include any forecasting of changes in consumption of gasoline during the biennium in order to demonstrate the impact of the proposed rate change.			

Background Information Transportation Funding: Special Distribution Account and Accelerated Distribution Formulas: Accelerated #1 is the first of two distribution formulas from the Special Distribution Account. The second formula is known as Accelerated #2. The Special Distribution Account receives the first \$25 M collected from 14 cents of the Gasoline Tax as well as the first \$25 M collected from the Special Fuel Tax. The \$50 M total is split evenly between Accelerated #1 and Accelerated #2. Sixty percent of Accelerated #1 is distributed according to the Local Road and Street (LRS) distribution formula to local units, and 60% of Accelerated #2 is distributed according to the MVH distribution formula to local units.

Motor Vehicle Highway Account and Distribution: The MVH is funded through a combination of revenue sources including portions of the Gasoline Tax, Special Fuel Tax, Motor Carrier Fuel Use Tax/Surtax, Vehicle

Registration, Title Fees, and other smaller sources of revenue. Of the total available for distribution, 53% goes to the State Highway Fund (INDOT), and 47% to local units. The local MVH distribution method is different for counties and cities and towns. For cities and towns, it is entirely population-based. For counties, 5% of the amount available is distributed equally to all counties, 30% is based on county vehicle registration, and 65% is mileage-based. Local MVH distributions are used by counties, cities, and towns for the expenses of highway and street departments, construction, maintenance, and reconstruction cost of roads, and equipment purchases. Cities and towns may use a portion of their distribution for public safety expenditures.

Highway Road and Street Fund: The Highway Road and Street Fund receives revenue from a portion of the Gasoline Tax, Special Fuel Tax, and the 1969 increase in vehicle registration and title fees. The Highway Road and Street Fund disburses 55% to the State Highway Fund (INDOT) and 45% to the Local Road and Street Account.

Local Road and Street Account and Distribution: The Local Road and Street Account is made up of 45% of the revenues collected out of the Highway Road and Street Fund. The LRS distribution method is a two-step process, the first step using total passenger car registrations to determine the county allocation and the second step using a variety of factors to determine the county/city and town suballocation. The suballocation depends on county population size as well as county road and street mileage.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties, cities, and towns are expected to receive an additional \$7.9 M in revenue in FY 2014 that is directly attributable to the CPI-indexed gasoline tax. In FY 2015, counties, cities, and towns are expected to receive \$16.0 M more in revenue due to the indexed gasoline tax.

Estimate of Increase of Local Revenue Attributable to Indexing Gas Tax to CPI			
Fiscal Year	Expected Revenue at Current Rate *	Expected Revenue with Indexed Rate	Estimated Increase due to Indexed Rate
2014	\$376.7 M	\$384.6 M	\$7.9 M
2015	\$376.7 M	\$392.7 M	\$16.0 M
* The revenue estimate does not include any forecasting of changes in consumption of gasoline during the biennium in order to demonstrate the impact of the proposed rate change.			

State Agencies Affected: INDOT, DOR, Auditor of State.

Local Agencies Affected: Counties, cities, towns.

Information Sources: DOR Sales Tax return data; Global Insight forecast data; Revenue Technical Committee Forecast, December 17, 2012, *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2012*; Dan Bastin, Indiana Auditor of State Office, dbastin@auditor.in.gov; Bill Weinmann, Indiana Department of Transportation, joweinmann@indot.in.gov.

Fiscal Analyst: Stephanie Wells, 232-9866; Lauren Sewell, 232-9586.